

Message Text

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21 20

ACTION EA-14

INFO OCT-01 ISO-00 SPC-03 AID-20 EB-11 NSC-10 RSC-01

CIEP-02 TRSE-00 SS-15 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 AGR-20 SCI-06 SAJ-01 DRC-01 IO-15 L-03 H-03

DODE-00 PA-03 USIA-15 PRS-01 PM-07 EUR-25 NSCE-00

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P R 100345Z OCT 73

FM USLO PEKING

TO SECSTATE WASHDC PRIORITY 821

INFO AMCONSUL HONG KONG

C O N F I D E N T I A L PEKING 1179

E.O. 11652: N/A

TAGS: ETRD, EAGR, CH, US

SUBJECT: MAJOR PROBLEM LOOMS FOR US WHEAT EXPORTS TO PRC

REF: A) STATE 190608; B) PEKING 1175

SUMMARY. USDA SCIENTIST JAMES A. HOFFMAN VISITED PRC FROM SEPTEMBER 27 TO OCTOBER 9 FOR TALKS WITH OFFICIALS OF THE CHINA NATIONAL CEREALS, OIL AND FOODSTUFFS CORPORATION (CEROILFOOD). ACCOMPANIED BY REPRESENTATIVES OF DREYFUS AND CARGILL, HE MET WITH CEROILFOOD REPRESENTATIVES IN PEKING AND TRAVELED TO SHANGHAI, WHERE FOUR DREYFUS AND TWO CARGILL SHIPS WERE DETAINED IN PORT DUE TO THE DISCOVERY OF TCK WHEAT SMUT. DURING HOFFMAN'S VISIT, THE PROBLEM OF THE DETAINED SHIPS WAS RESOLVED, BUT CHINESE REFUSAL TO ACCEPT ANY SUCH FUTURE CARGOES POSES A SERIOUS LONG-TERM THREAT TO US WHEAT EXPORTS TO THE PRC. END SUMMARY.

1. AS OUTLINED IN REFTEL A, DR. JAMES A. HOFFMAN CAME TO CHINA
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ON SEPTEMBER 27 TO DISCUSS PROBLEM OF TCK WHEAT SMUT FOUND

PRESENT IN FOUR DREYFUS AND TWO CARGILL WHEAT SHIPMENTS. SHORTLY AFTER ARRIVING IN PEKING, HOFFMAN WAS TAKEN TO SHANGHAI, WHERE HE WAS SHOWN ADEQUATE EVIDENCE TO ESTABLISH THE PRESENCE OF TCK IN ALL SIX SHIPMENTS. WHILE USDA HAD CERTIFIED THAT THE SHIPMENTS WERE FUNGUS-FREE, CHINESE INSPECTION OF THE CARGOES WERE MUCH MORE THOROUGH, HOFFMAN SAID. FOLLOWING INFORMATIONAL EXCHANGES BETWEEN HOFFMAN AND CEROILFOOD ON NATURE OF TCK SMUT AND DISCUSSIONS AMONG CARGILL, DREYFUS AND CEROILFOOD, THE CHINESE AGREED TO ACCEPT THE SIX SHIPMENTS AND ANY OTHERS NOW LOADED EVEN IF TCK-CONTAMINATED; CARGILL AND DREYFUS AGREED TO PAY FOR WASHING OF THE CONTAMINATED CARGOES AFTER UNLOADING. AT THE SAME TIME, THE CHINESE SERVED NOTICE THAT ANY FUTURE SHIPMENTS OF TCK-CONTAMINATED TRAIN WILL NOT BE ACCEPTED.

2. THE CHINESE REFUSAL TO ACCEPT FUTURE SHIPMENTS OF TCK-CONTAMINATED WHEAT, ACCORDING TO HOFFMAN AND DREYFUS AND CARGILLS REPRESENTATIVES, POSES A SERIOUS THREAT TO THE FUTURE OF US WHEAT EXPORTS TO CHINA. TCK IS A SMUT WHICH ATTACKS WINTER WHEAT AND REDUCES YIELD. IT DOES NOT EXIST IN CHINA, AND THIS IS WHY PRC QUARANTINE REGULATIONS PROHIBIT ITS IMPORT. UNFORTUNATELY, 90 PERCENT OF US WESTERN WHEAT IS WINTER WHEAT, SUBJECT TO CONTAMINATION BY TCK. PRACTICAL CONSIDERATIONS MAKE IT VIRTUALLY IMPOSSIBLE FOR EXPORTERS TO GUARANTEE THAT ANY SHIPMENT OF US WESTERN WHEAT WILL BE TOTALLY TCK-FREE. THUS DREYFUS AND CARGILL WILL HAVE TO MEET CURRENT COMMITMENTS TO CHINA WITH US SPRING WHEAT, SHIPPED OUT OF GULF COAST PORTS OR TRANSPORTED OVERLAND FROM THE MIDWEST TO THE WEST COAST FOR SHIPMENT. SUCH WHEAT CAN ONLY BE PROVIDED AT GREATER EXPENSE BECAUSE OF THE HIGHER TRANSPORTATION COSTS INVOLVED. (DREYFUS AND CARGILLS WILL HAVE TO ABSORB THIS ADDED EXPENSE FOR CURRENT COMMITMENTS.) IN THE LONG RUN, THIS SITUATION MAKES US WHEAT UNCOMPETITIVE IN THE CHINA MARKET THE DREYFUS AND CARGILLS REPRESENTATIVES SAID. CANADIAN SPRING WHEAT, SHIPPED FROM VANCOUVER, AND AUSTRALIAN WHEAT, WHICH IS TCK-FREE, CAN BOTH BE DELIVERED TO CHINA AT LOWER C.I.F. PRICES THAN US SPRING WHEAT. THUS, IF AMERICAN WESTERN WHEAT IS RULED OUT, US SUPPLIERS ARE LIKELY TO GET LARGE CONTRACTS FROM CHINA ONLY IN ABNORMAL YEARS SUCH AS 1973, WHEN WORLD-WIDE SUPPLY IS TIGHT AND PRC DEMAND IS HIGH.

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4. HOFFMAN WAS UNABLE TO OFFER ANY IMMEDIATE SOLUTION FOR THIS PROBLEM OTHER THAN TO SAY IT IS POSSIBLE TCK SMUT MAY BE ELIMINATED IN THREE TO TEN YEARS. HE BELIEVES, HOWEVER, THAT PRC PROPAGATION CONDITIONS WOULD NOT BE HIGHLY CONDUCIVE TO THE SPREAD OF TCK IN CHINA. UNDER NORMAL CONDITIONS, TCK REQUIRES 60-90 DAYS OF CONTINUOUS SNOW COVER IN ORDER TO PROPAGATE, THOUGH IT HAS BEEN KNOWN TO REPRODUCE

WITH ONLY 25 DAYS CONTINUOUS SNOW COVER OR UNDER CERTAIN OTHER CONDITIONS. SINCE SUCH CONTINUOUS SNOW COVERAGE FOR LONG PERIODS DOES NOT EXIST IN MOST AREAS OF CHINA WHERE WINTER WHEAT IS GROWN, IT SEEMS UNLIKELY THAT TCK IS AS SERIOUS A THREAT TO PRC WHEAT AS CHINA'S QUARANTINE REGULATIONS WOULD INDICATE. NEVERTHELESS, HOFFMAN AND THE CARGILLS AND DREYFUS REPS ALL BELIEVES THAT THE CHINESE CAUTION IS UNDERSTANDABLE.

5. USLO OFFICERS TALKED TO HOFFMAN AND THE CARGILL AND DREYFUS REPS ABOUT THE POSSIBLE MERITS OF A FULLER EXCHANGE OF EXPERTS BETWEEN THE US AND THE PRC ON THE TCK PROBLEM. THE DISCUSSION WAS INCONVULSIVE; BUT IN GENERAL, IT WAS THOUGHT THAT GREATER CHINESE UNDERSTANDING OF THE PROBLEM MIGHT NOT LEAD TO A GREATER WILLINGNESS TO ACCEPT TCK-CONTAMINATED WHEAT. NEVERTHELESS, THE IDEA OF AN EXCHANGE OF EXPERTS MIGHT BE WORTH EXPLORING FURTHER.

6. USLO BELIEVES IT ESSENTIAL THAT DEPARTMENT OFFICERS MEET WITH HOFFMAN AND OBTAIN A DETAILED REPORT FROM HIM. (HE PLANS TO BE IN WASHINGTON ONLY 24 HOURS BEFORE RETURNING TO UTAH AND WILL BE AVAILABLE ONLY ON OCTOBER 11; SEE REFTTEL B.) WE ASSUME THE DEPARTMENTS OF STATE AND AGRICULTURE WILL ALSO BE HEARING FROM CARGILL AND DREYFUS ABOUT THE TCK SITUATION, AND WILL WANT TO GIVE SERIOUS CONSIDERATION TO THIS APPARENTLY DIFFICULT PROBLEM.
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